

Washington State Economic & Revenue Outlook

Presented to
2010 Northwest Regional Managers Conference

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March 31, 2010
Welches, Oregon



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- We are coming out of the “Great Recession”
 - The economy will gain traction by mid-year
 - The recovery in revenues is underway, but progress will be slow
- The economic recovery faces headwinds
 - Real estate, especially commercial
 - Banking, particularly local and regional banks
- Upside
 - Exports
 - Stable aerospace and software publishing



The "Great Recession" has lived up to its name in Washington

Cumulative
job losses at
27 months

1982-83:

2.5% of labor
force

(trough 4.2%
at 16 months)

This time:

5.9% of labor
force

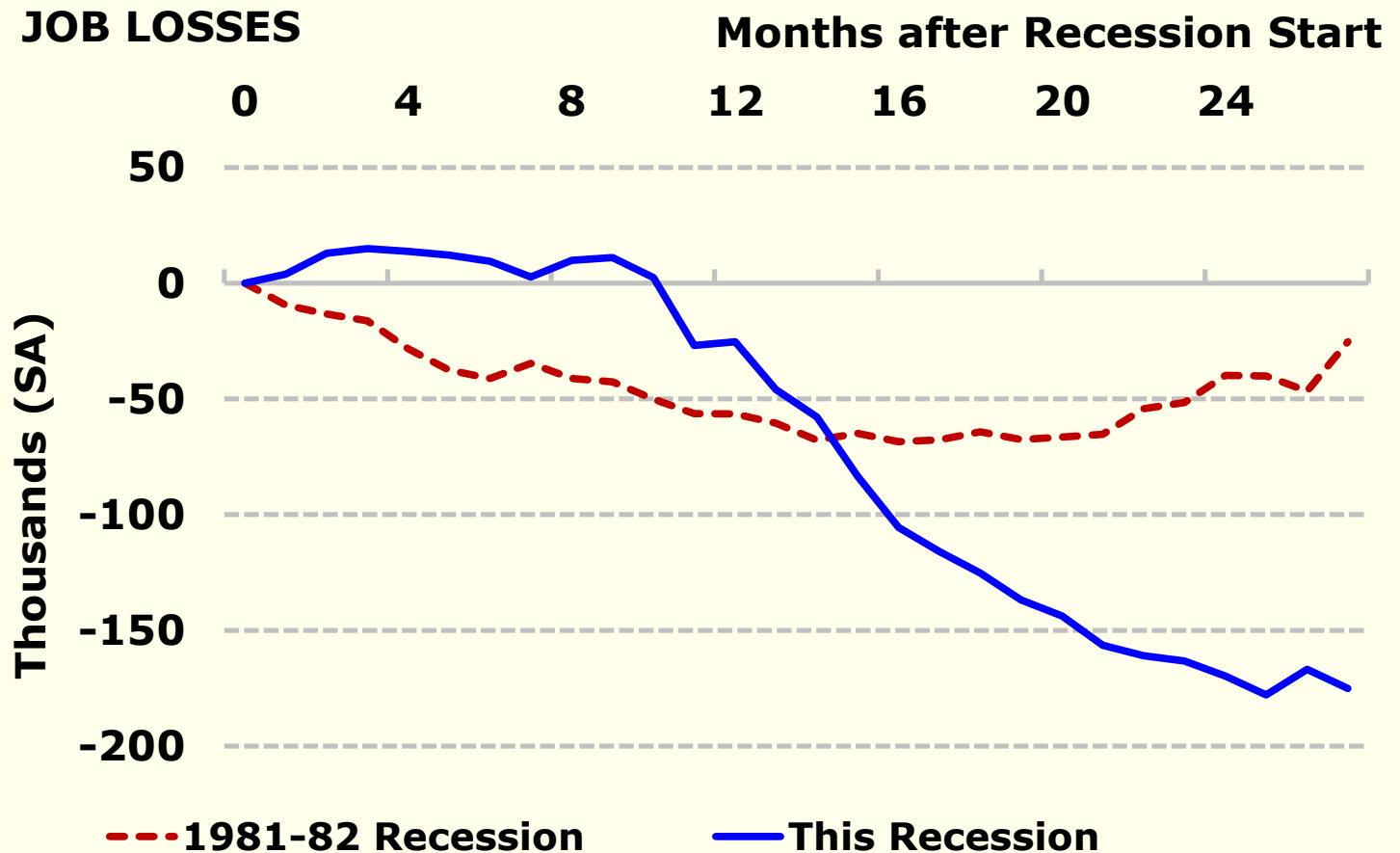
(trough 6.0%
at 25 months)

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Source: Washington Employment Security Department; data through February 2009

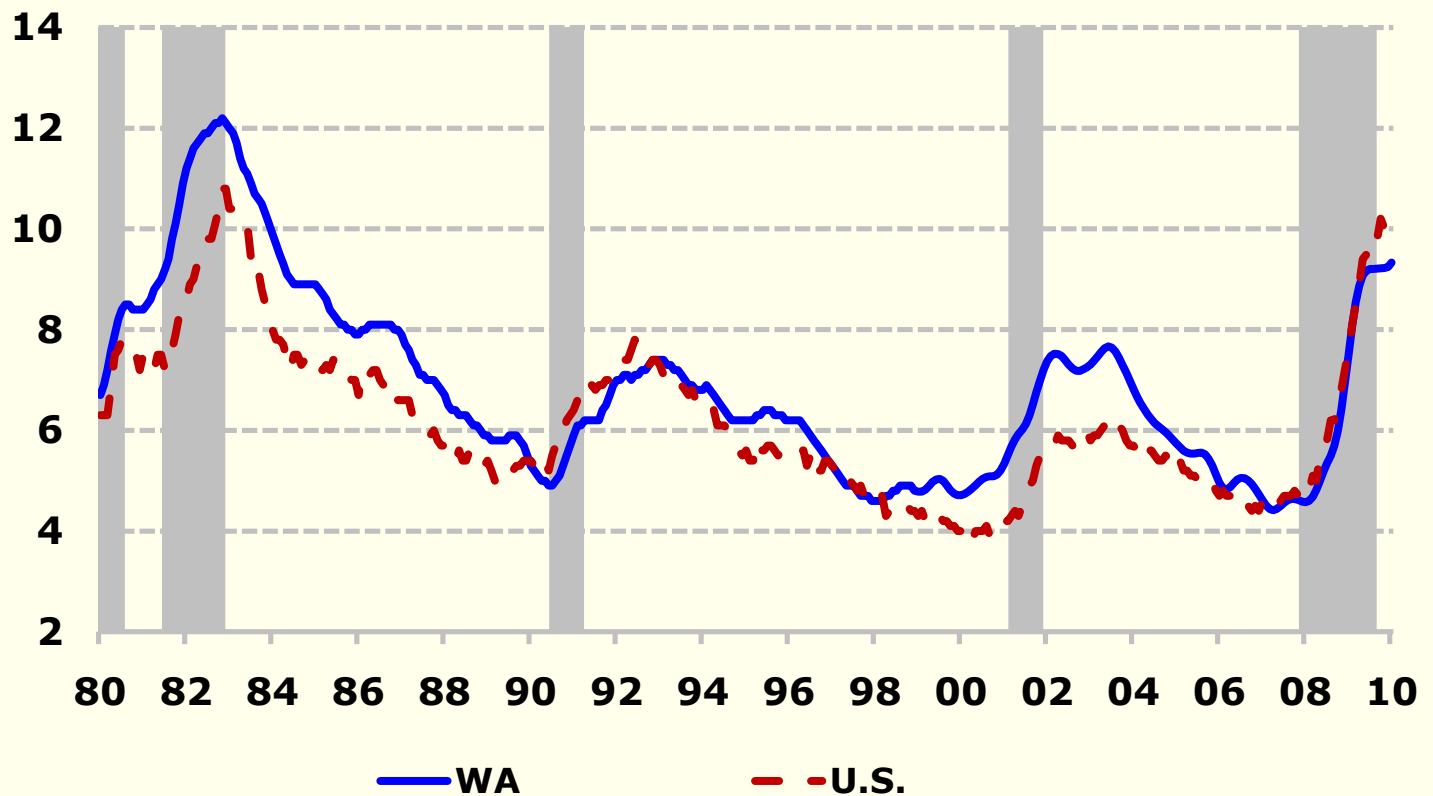
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Unemployment is still high

It is normal for this rate to continue to rise even after the economy is in recovery

Unemployment Rate, Percent, SA



Source: WA ESD, BLS; data through January 2010

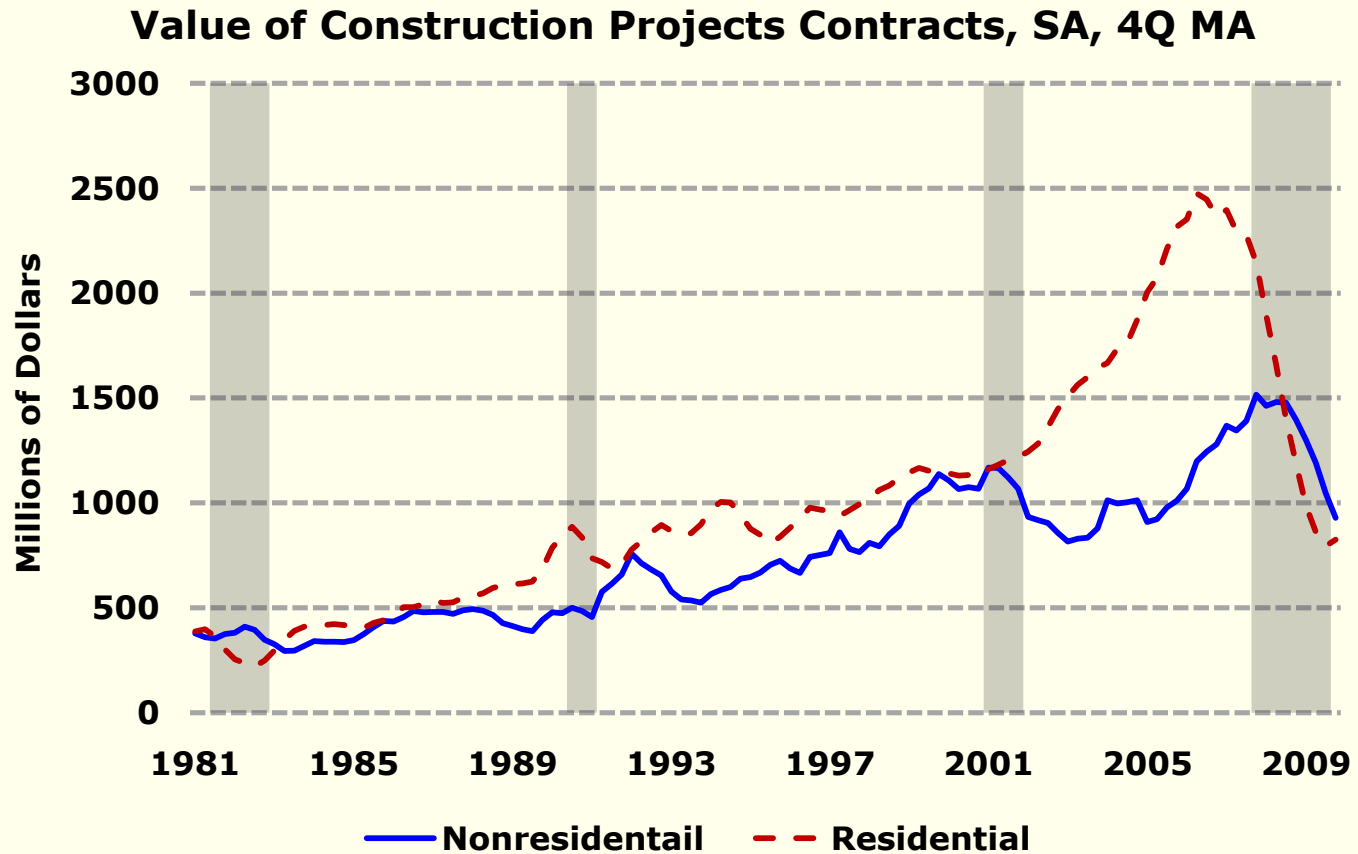
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Non-residential construction lagged residential on the way down, and has yet to find bottom

Washington charges retail sales tax on both construction materials and construction labor

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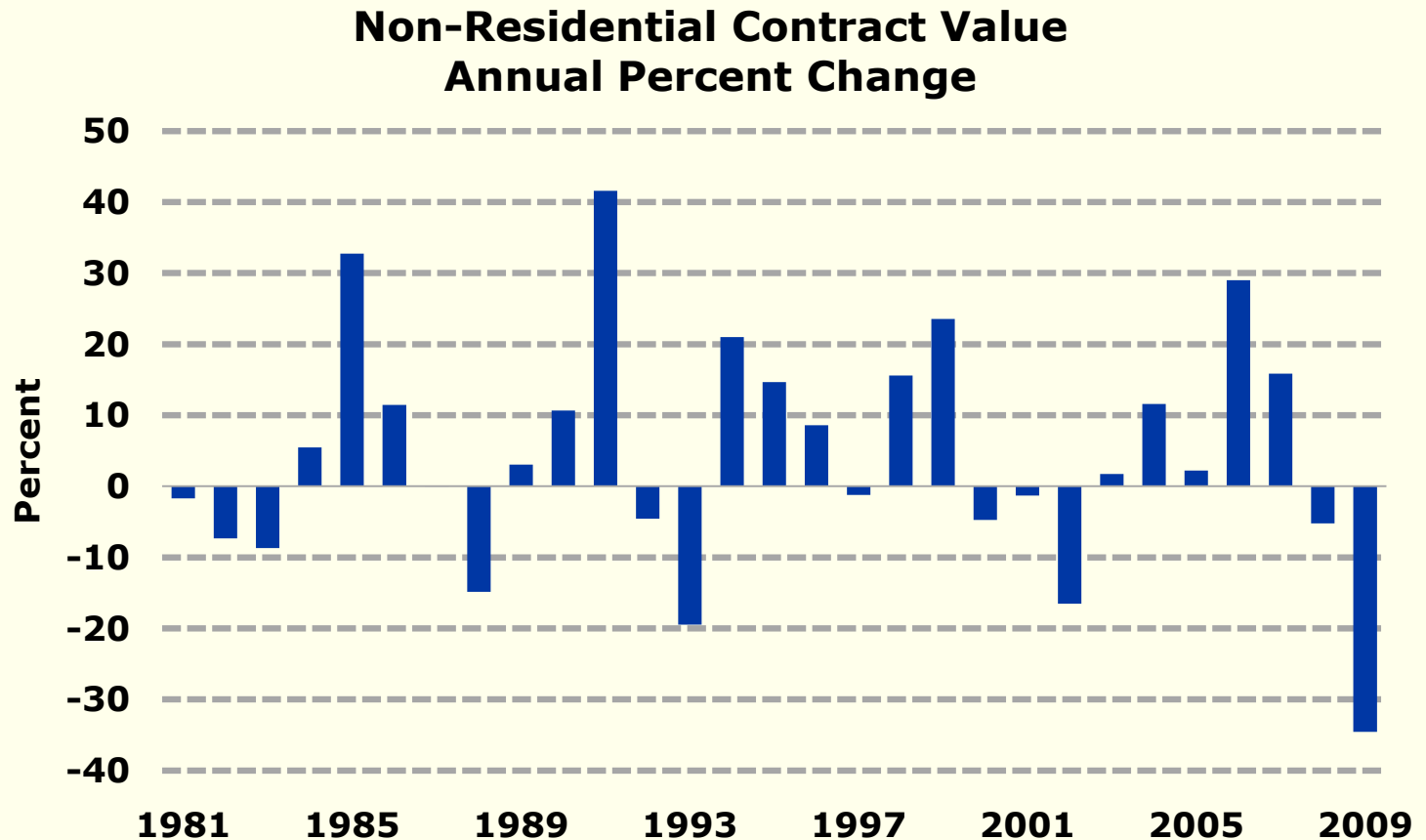


Source: McGraw-Hill Construction, ERFC; data through 2009 Q4

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This is the worst downturn in non-residential construction in 30 years



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Source: McGraw-Hill Construction, data through December, 2009

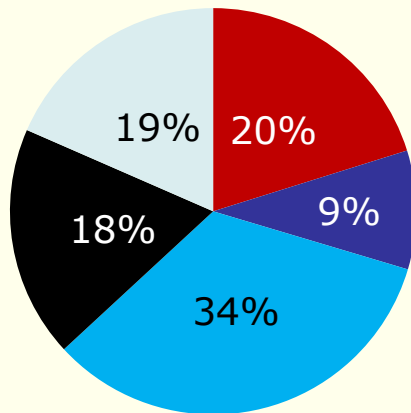
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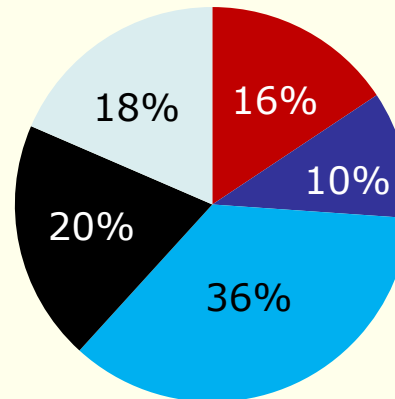
The share of construction in the Retail Sales tax base has shrunk

USD Millions

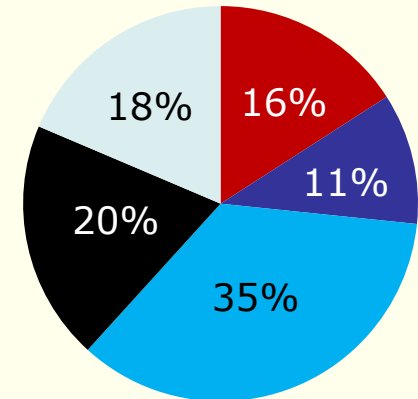
07-09 Biennium



09-11 Biennium



11-13 Biennium



■ Construction

■ Retail Trade Excluding Autos

■ Other

■ Motor Vehicles and Parts

■ Services

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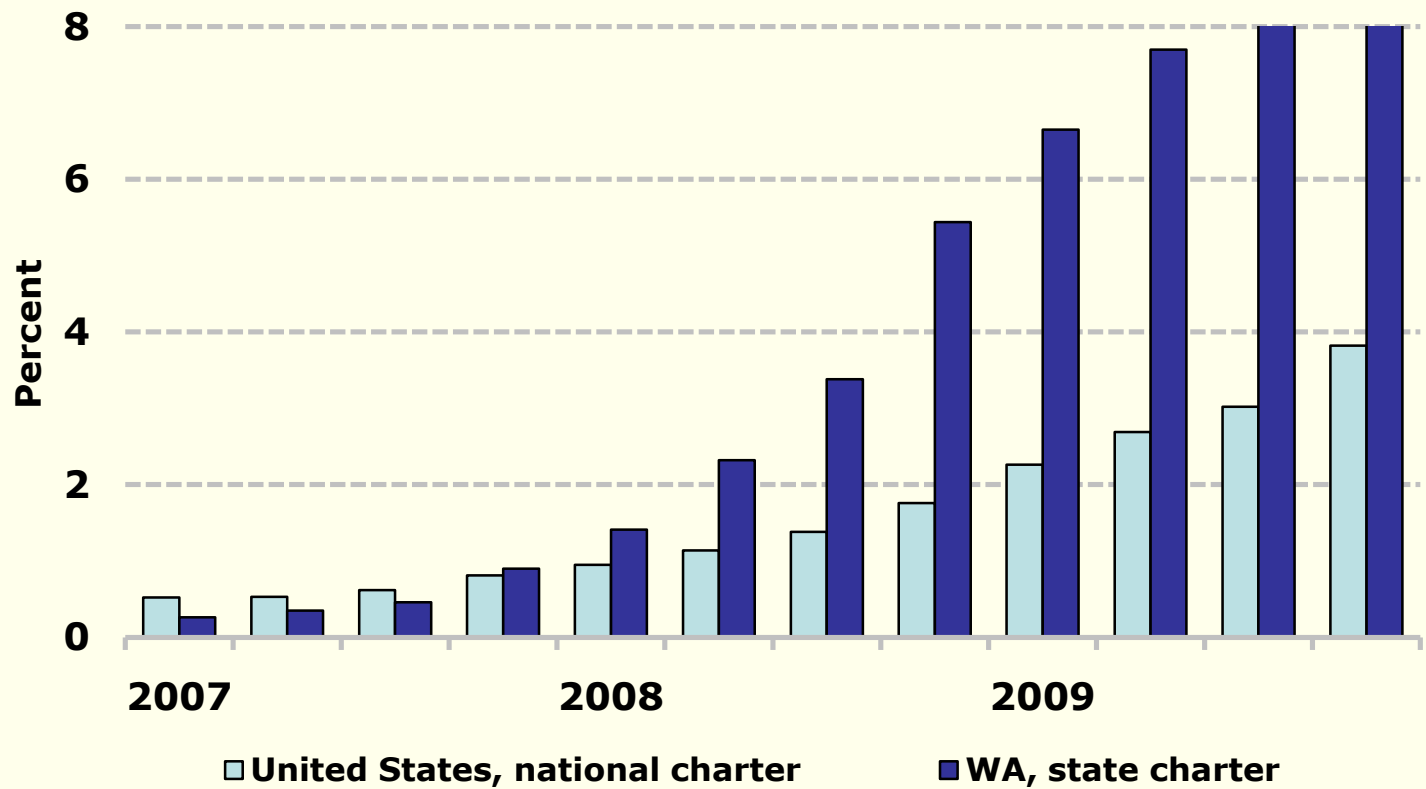
Asset quality of regional banks is poorer, but leveling off

The poorer asset quality of regional banks is due to their disproportionately high exposure to commercial real estate

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Ratio of Non-Performing to Total Assets

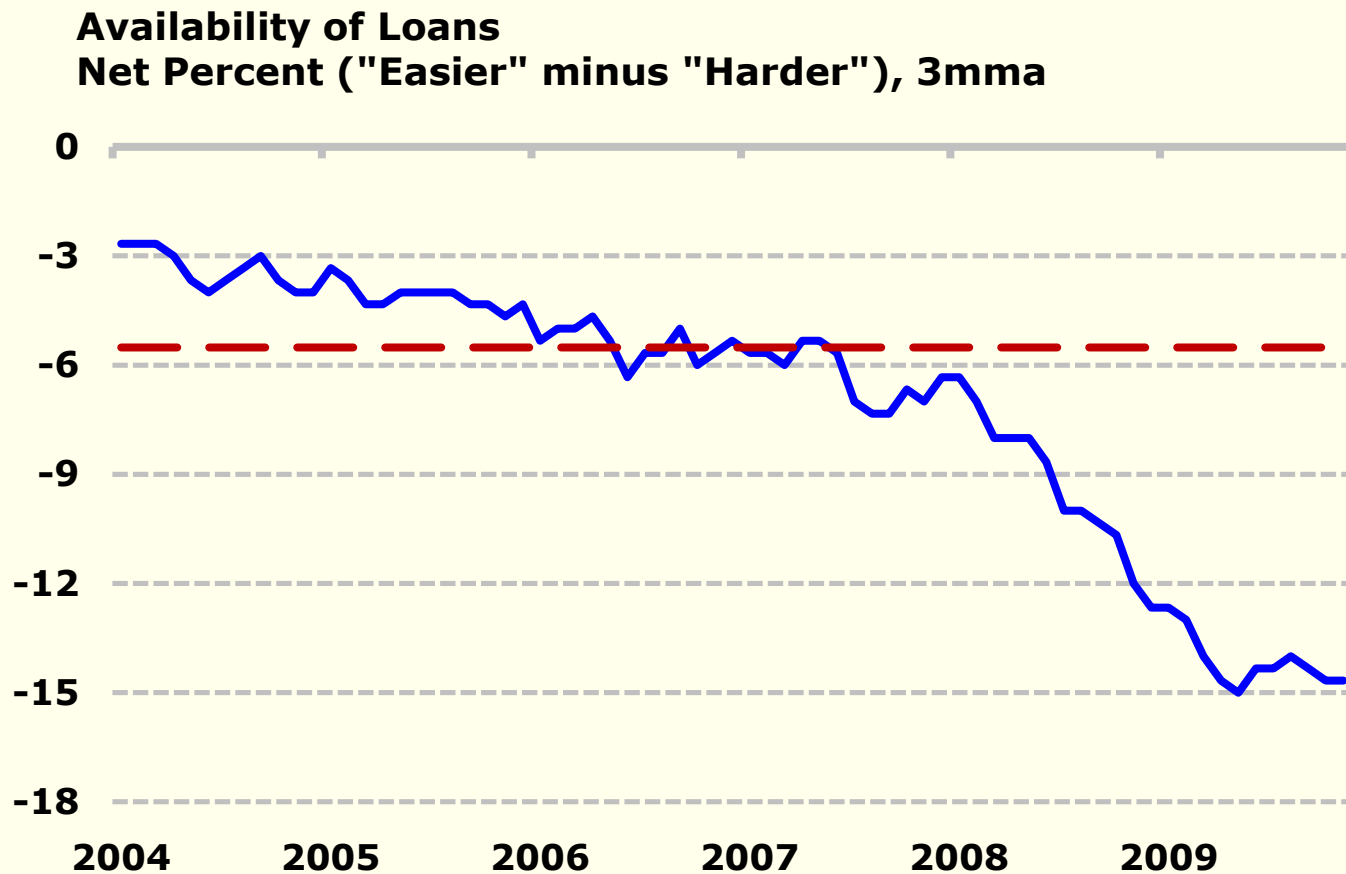


Source: FDIC, data through 2009 Q4

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Credit conditions remain tight for small business



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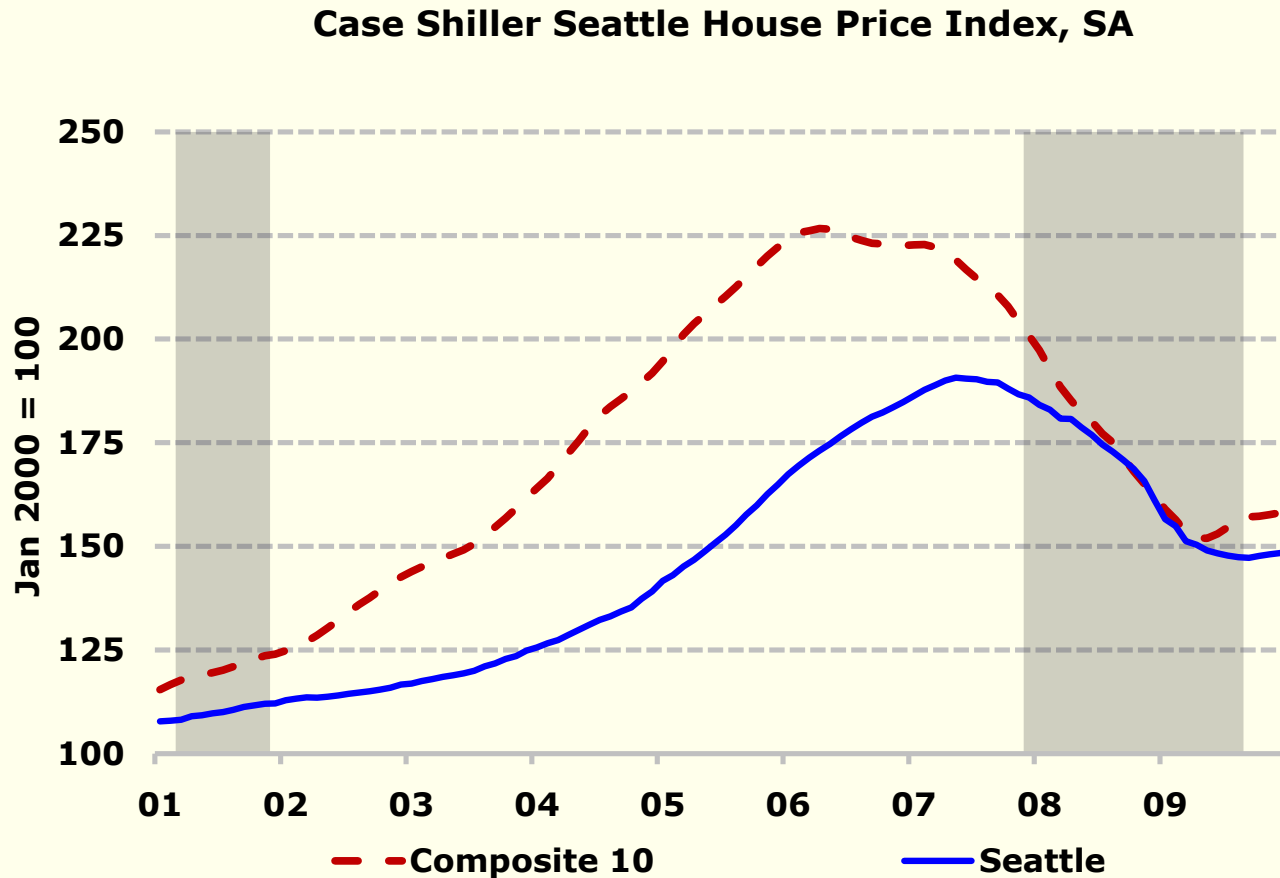
Source: National Federation of Independent Business; data through January 2010

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Home prices in Seattle appear to be leveling off, but lag the nation in the turnaround

Seattle Home Prices



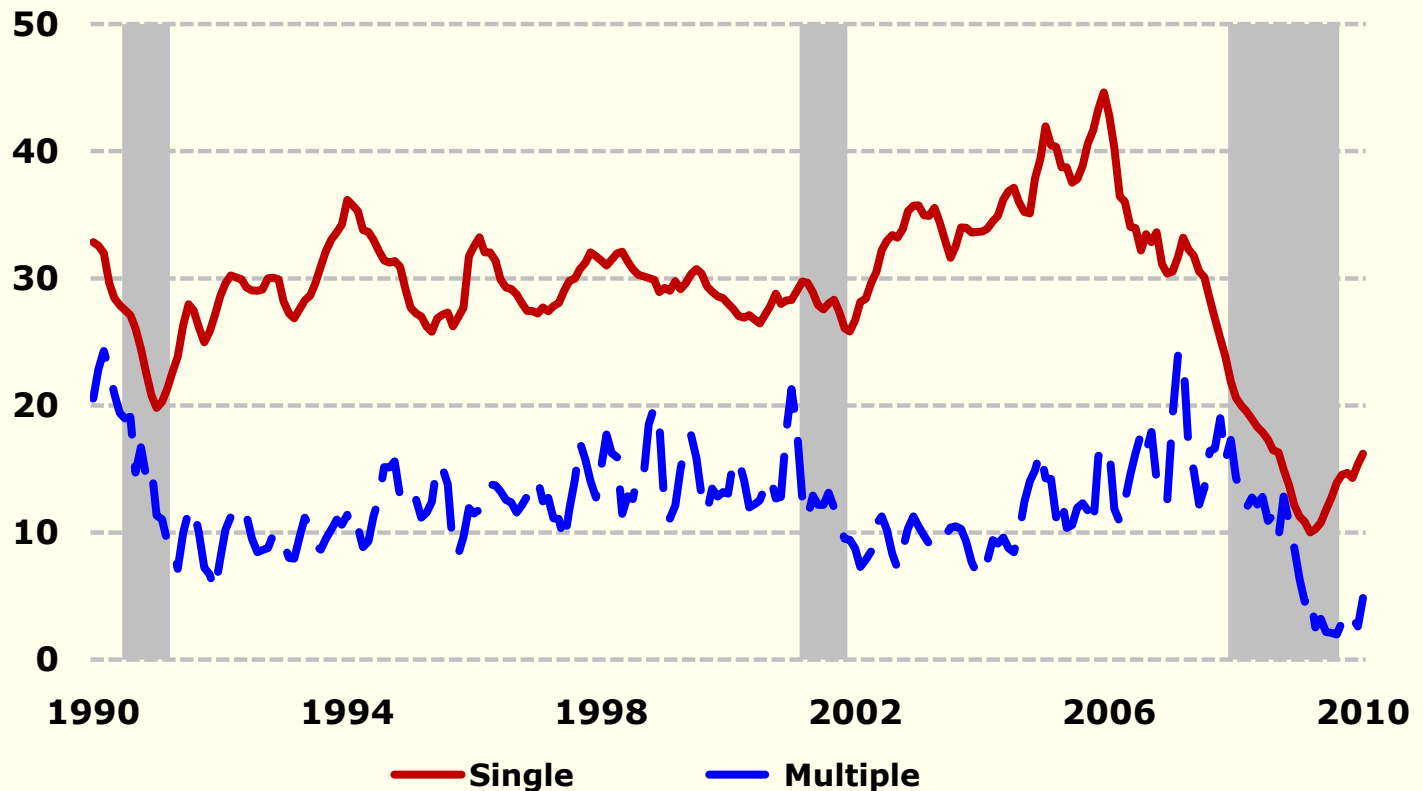
Source: S&P/Case-Shiller; data through December 2009

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WA single family building permits have been growing while multi-family lags

Thousands, SA, 3MMA



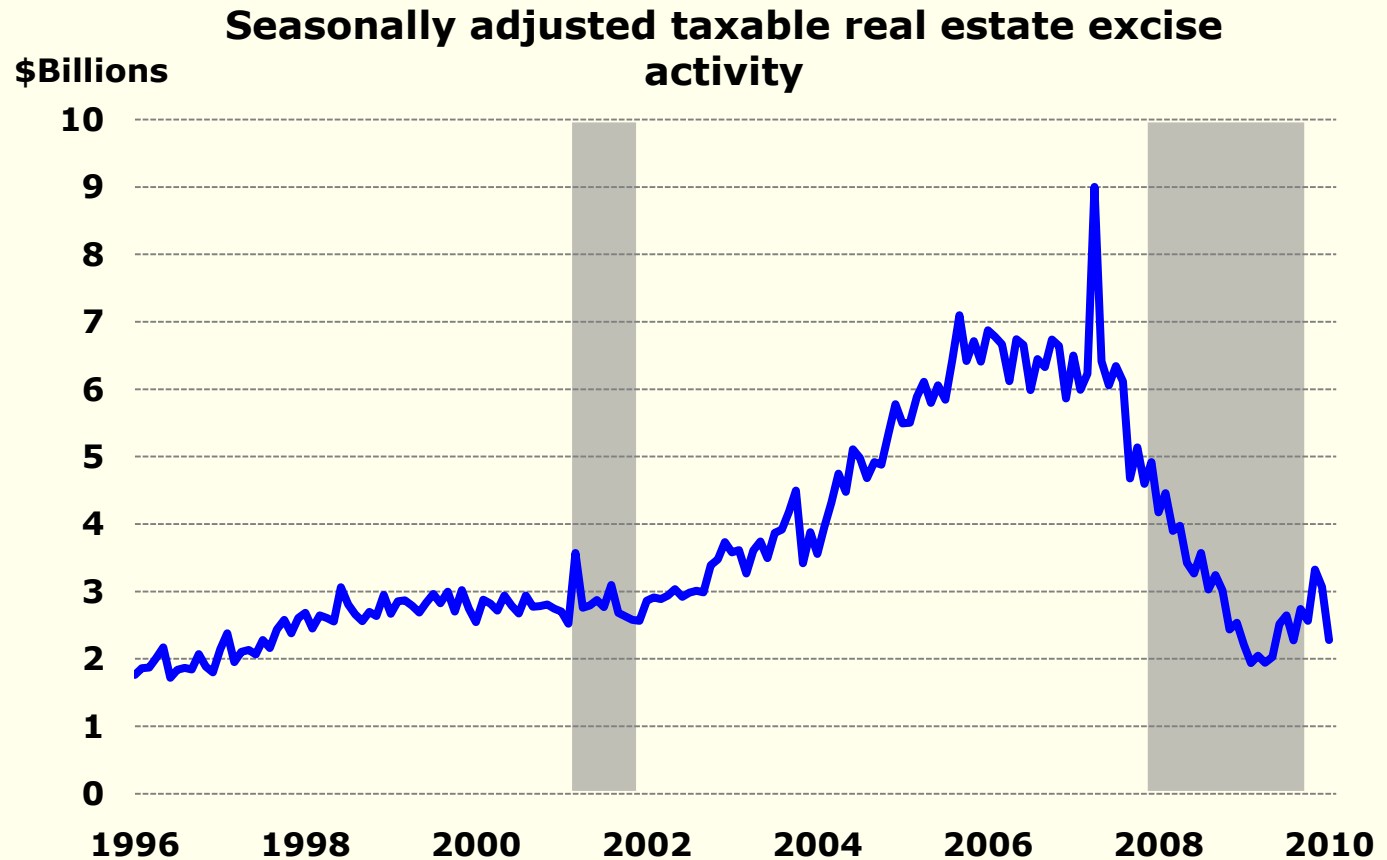
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Source: U.S. Census Bureau; data through January 2010

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REET collections fell after first round tax credits expired

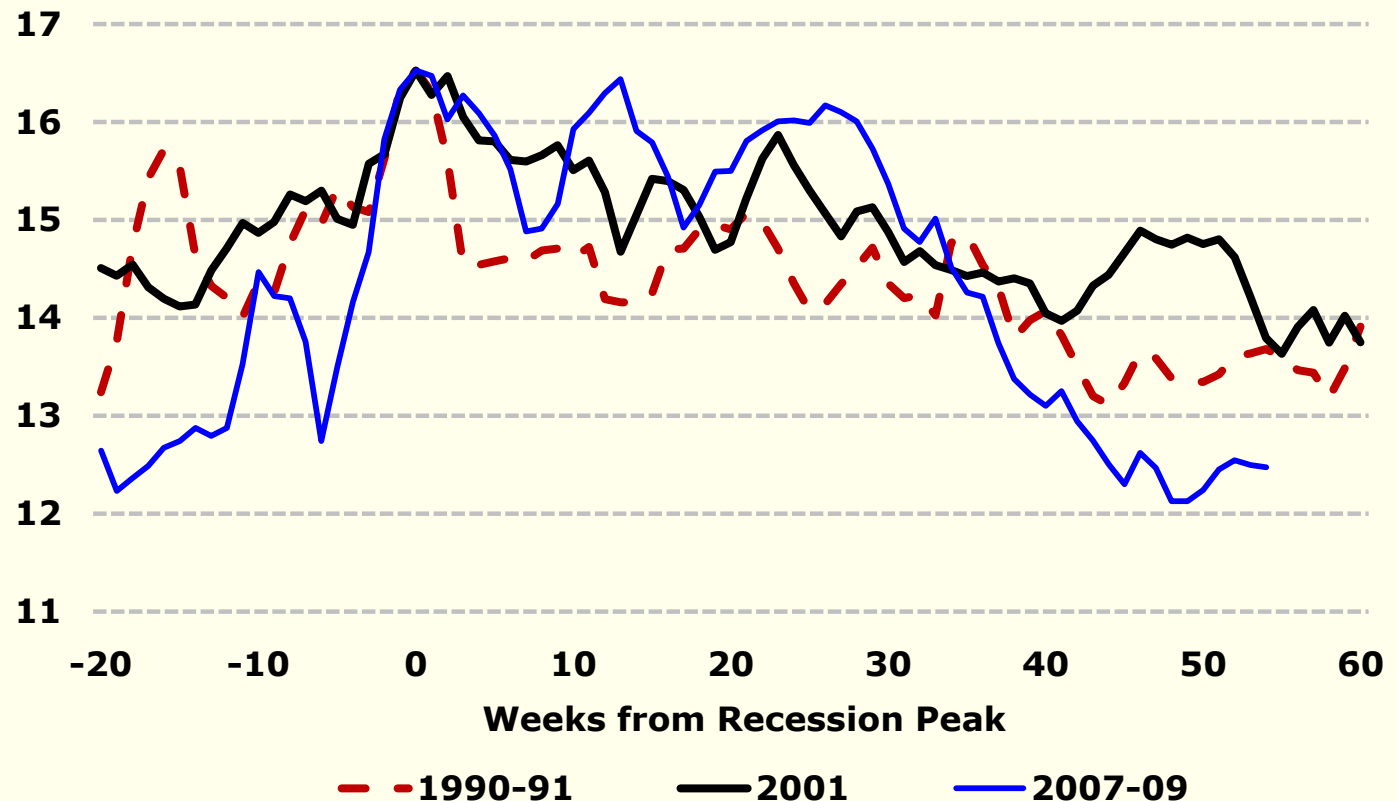


Source: ERFC; Monthly data through January 2010



Initial claims for unemployment insurance decreasing faster than those of two previous recessions

Thousands SA, 4MMA



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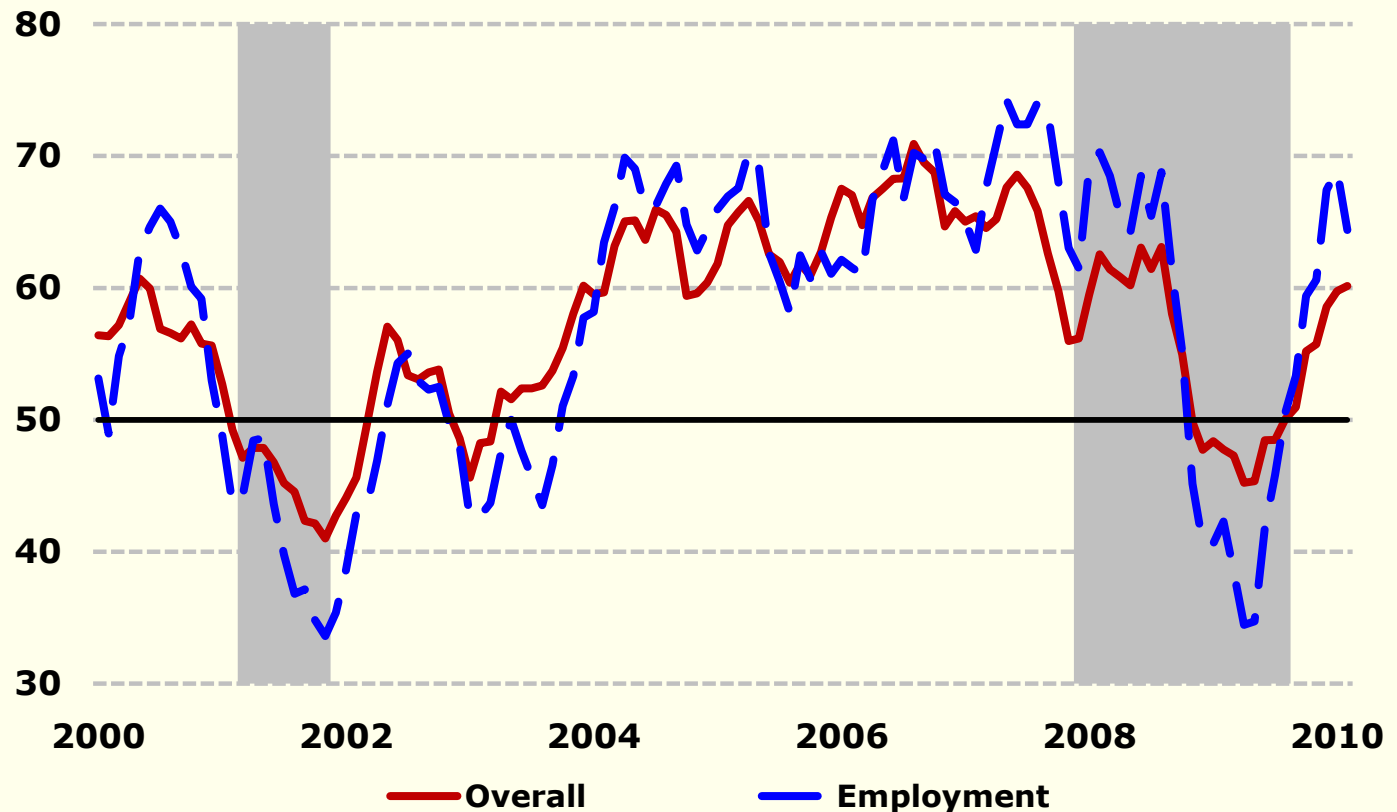
Source: WA State ESD, ERFC; data through March 13, 2010

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NAPM-WW index is indicating manufacturing growth

Index (>50 = Growth), 3MMA



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Source: National Association of Purchasing Managers – Western Washington (NAPM-WW); data through February 2010

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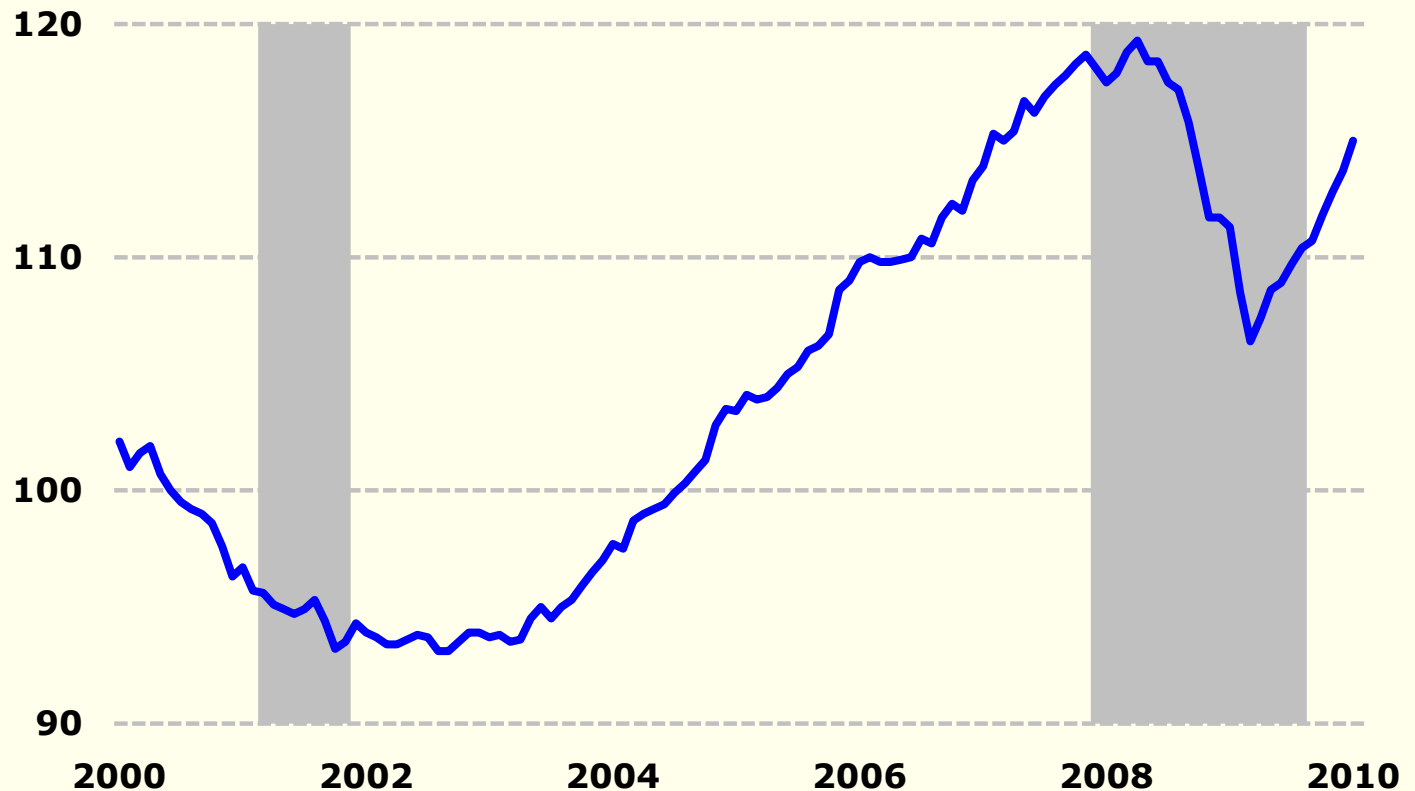


The Washington Index of Leading Indicators is showing strong growth

The index began to turn around in April 2009, the same time as the US index

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Index (2004=100)



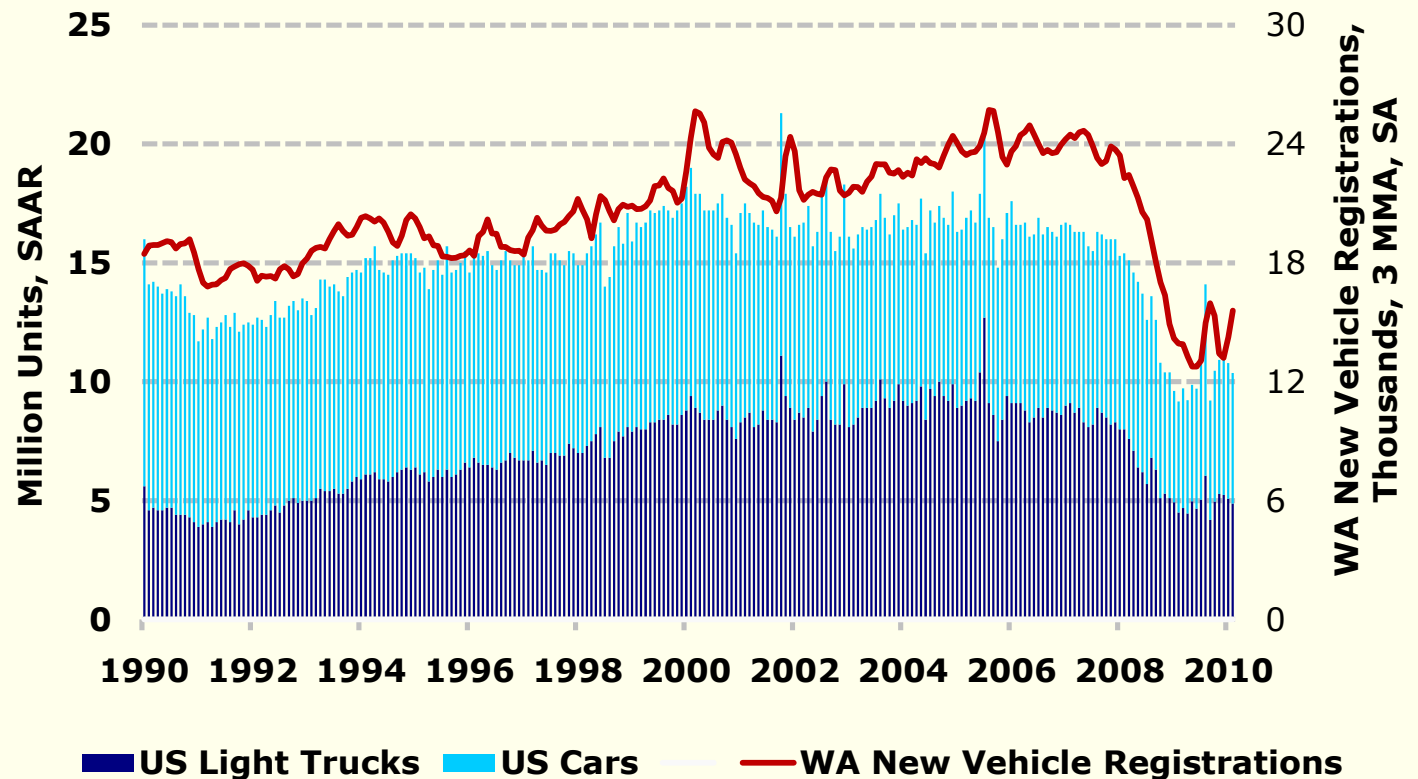
Source: ERFC; Data through January 2010

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Automobile sales are on an upward trend

National car sales were 1.2 million units (ann.) higher in February 2010 than in February 2009



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Source: Autodata Corporation, WA DOL; data through Feb 2010

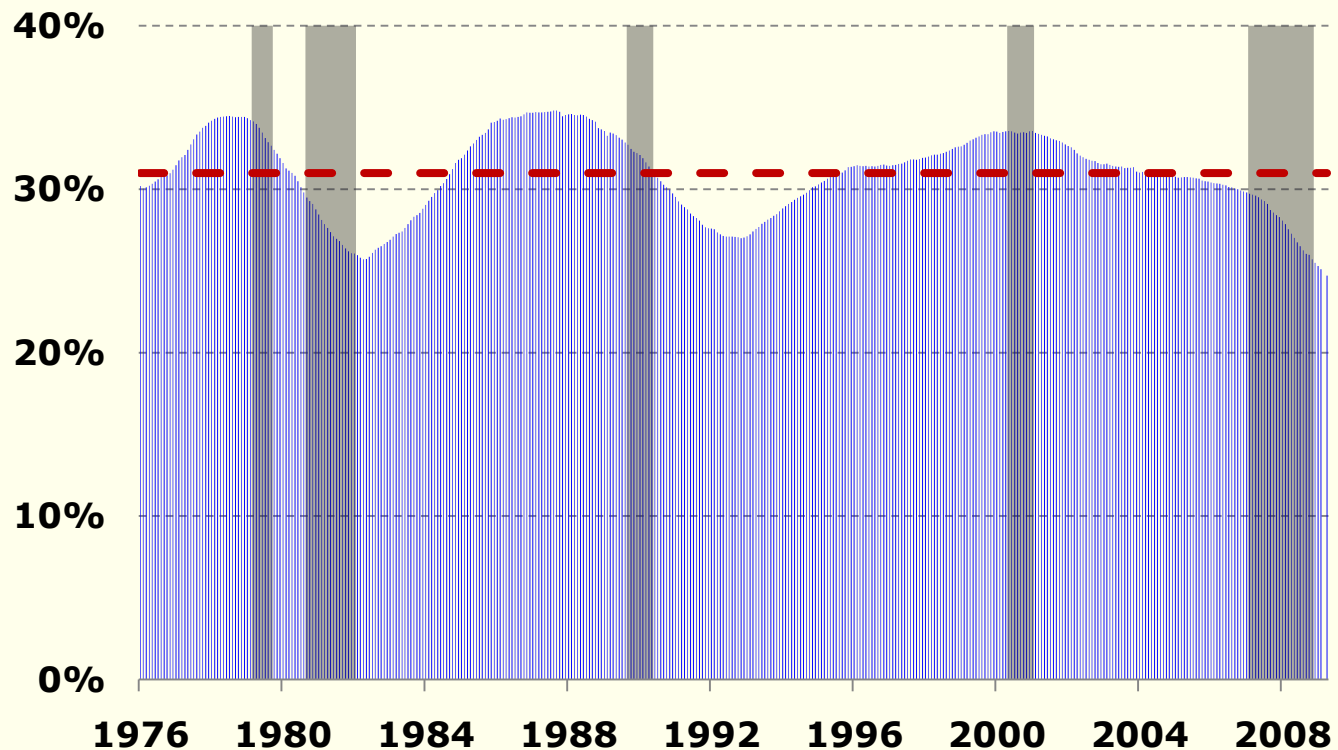
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Relative age of the car fleet indicates imminent turnaround in car sales

The percent of "old" cars on the road is at a historic high

U.S. LMV Sales: Ratio of 36/120 Months



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Source: Autodata Corporation, ERFC; data through February 2010

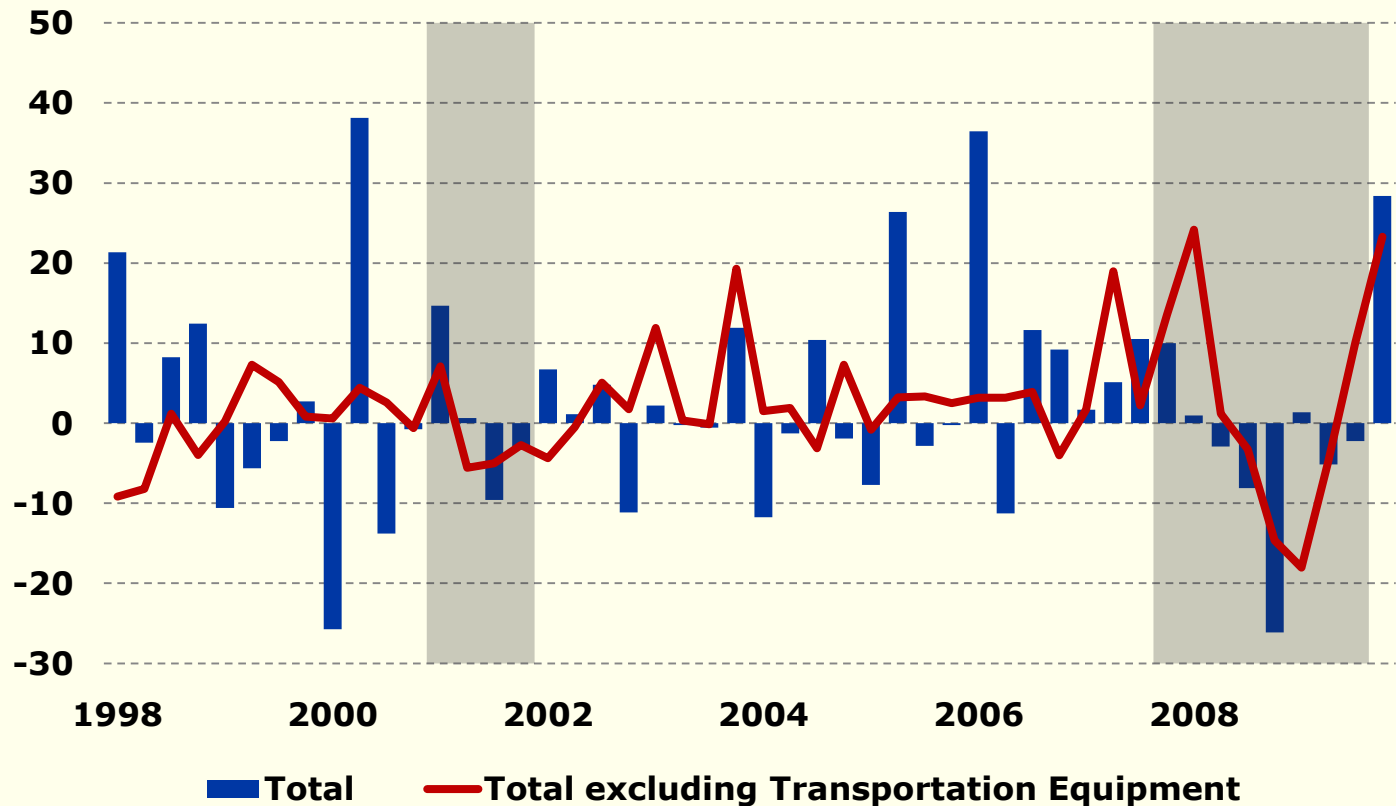
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Exports will help the state recover faster than the nation

Exports excluding transport equipment were up 23% in Q4

Exports, SA
Percent Change, quarter ago



Source: Wiser Trade Data; through 2009 Q4

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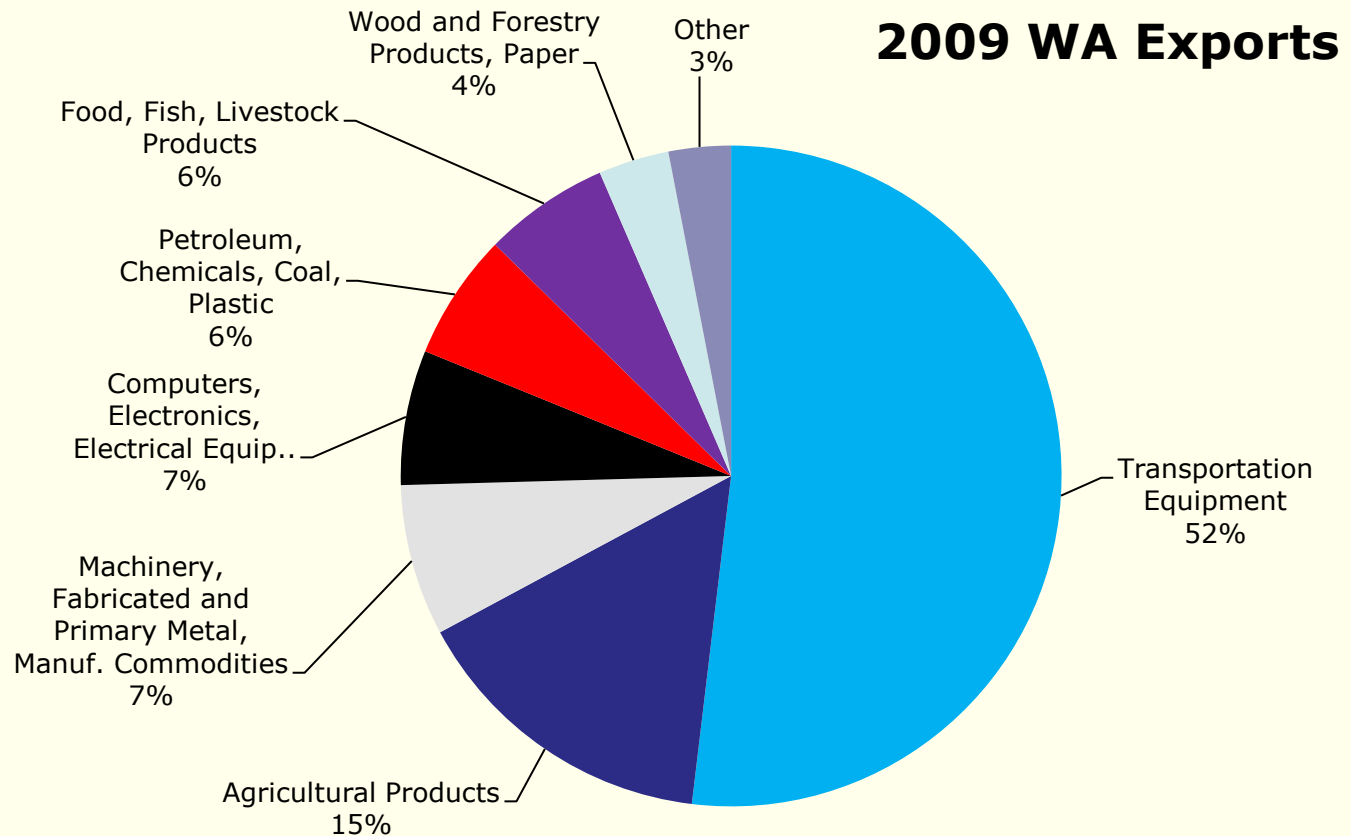


Transportation equipment dominates Washington exports

The value of agricultural products exports is somewhat inflated by commodities which are consolidated in the state but grown elsewhere

The level of manufactured goods exports rival those of ag products

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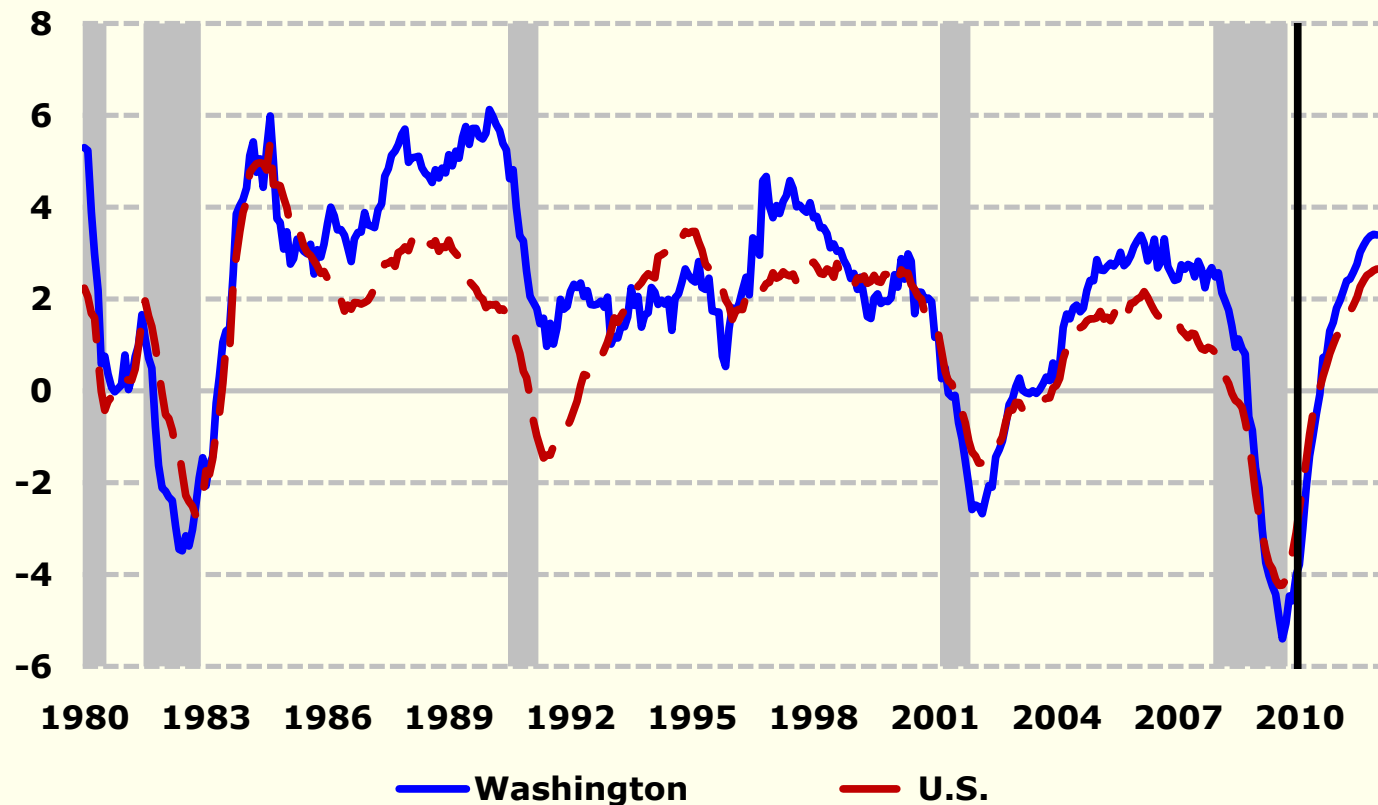
Source: Wiser Trade Data

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WA employment lagged the nation in the downturn and will recover a little stronger than the nation

Percent change, year ago



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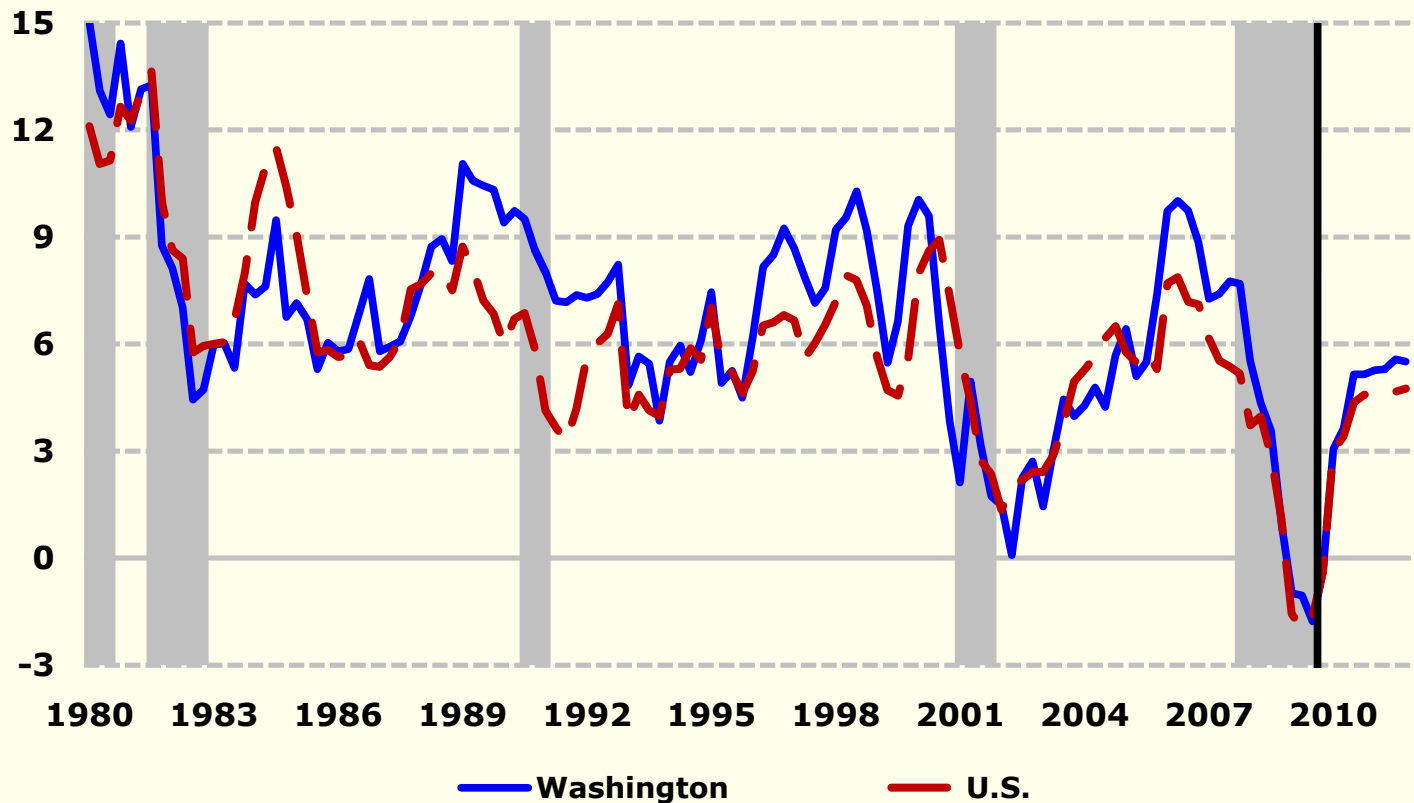
Source: ERFC November 2009 forecast; actual through December 2009

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The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago



Source: ERFC February 2010 forecast; actual data through 2009Q3

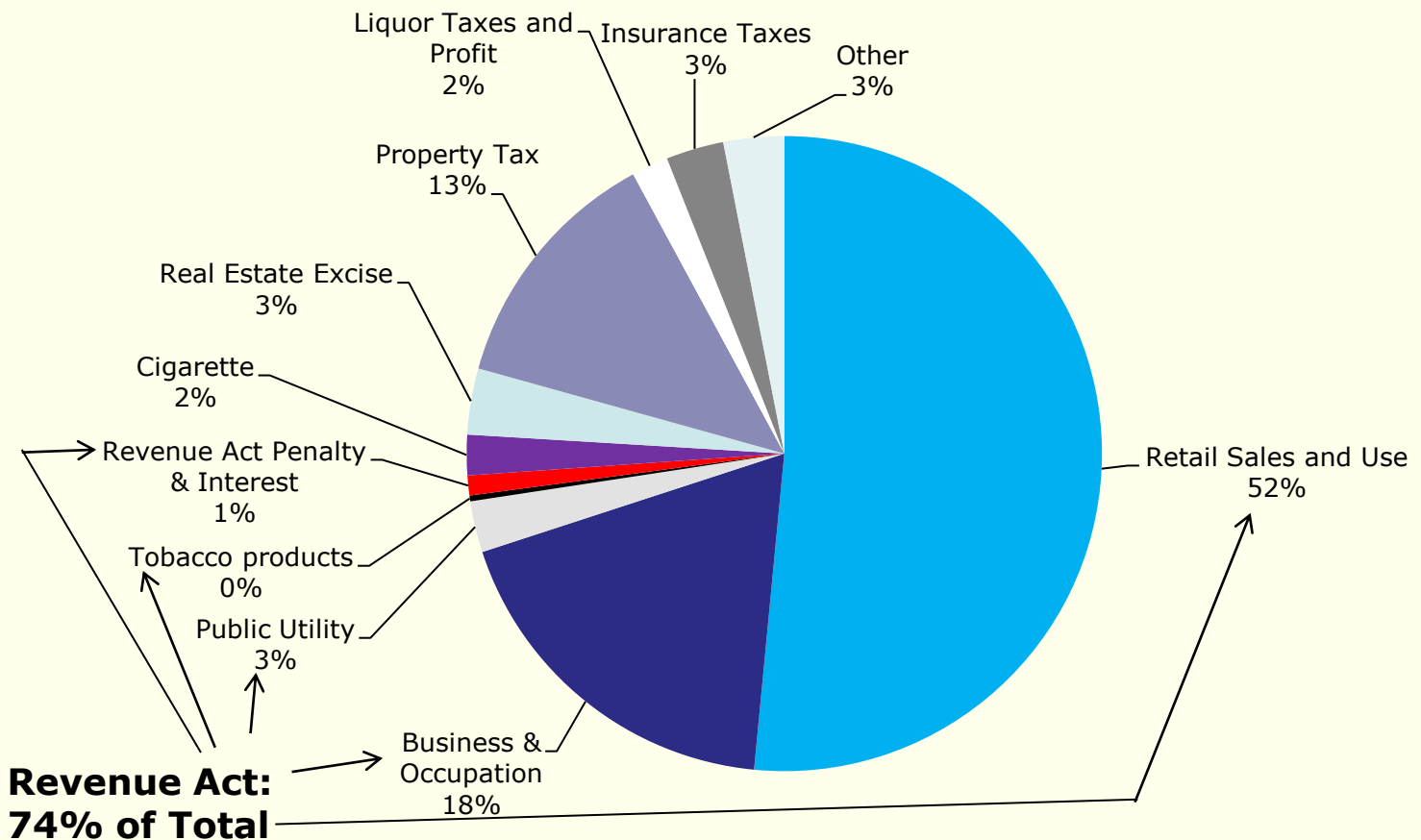


Retail sales and use taxes are over half of GF-S revenue

Forecast of
General Fund-
State revenue
for the 2009-11
biennium

Washington has
no state income
tax

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Source: ERFC

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Revenue Act revenue is on verge of year-over-year growth

Revenue Act revenues are:

- Retail Sales Tax
- Business and Occupation Tax
- Use Tax
- Public Utility Tax
- Tobacco Products Tax

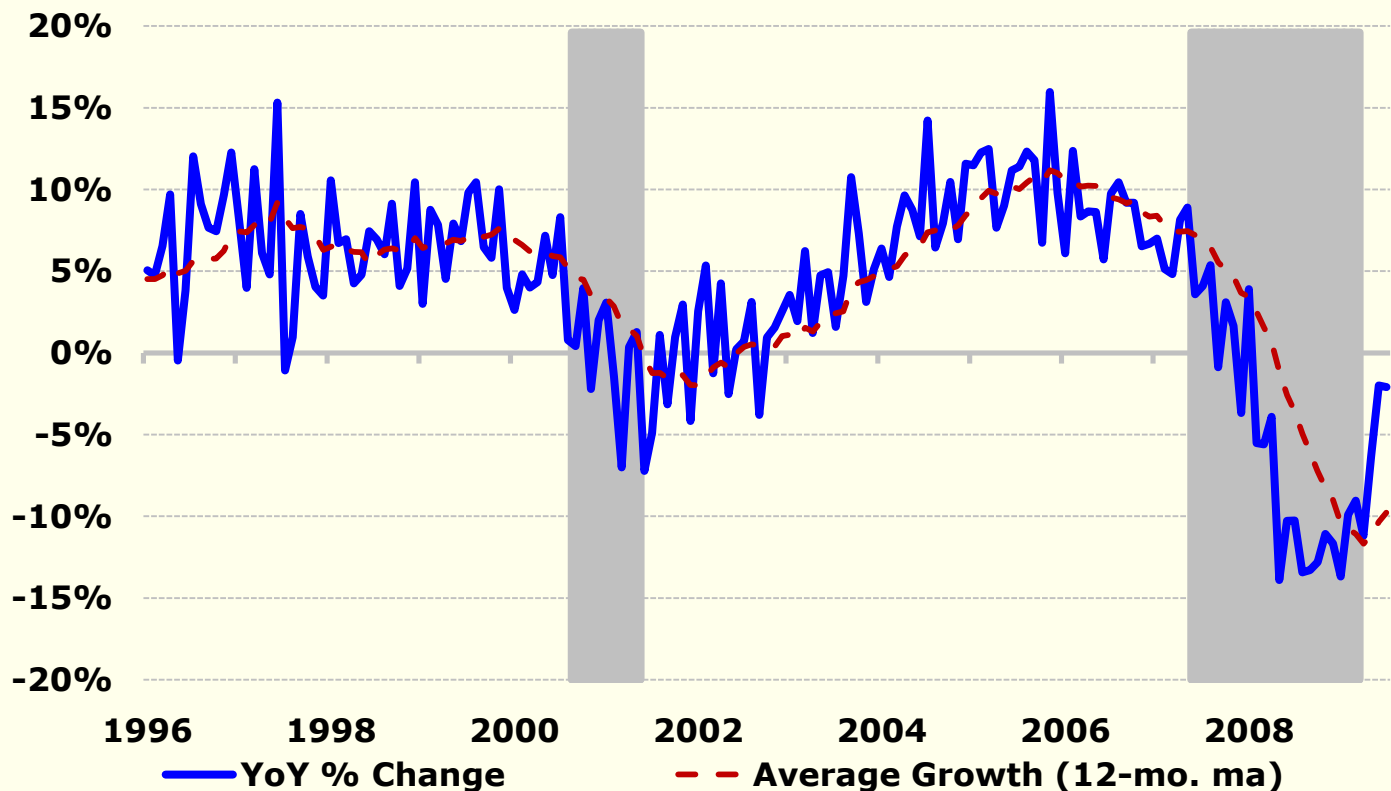
Taxes are due on the 25th of the month after taxable activity

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Y/Y growth in net Revenue Act collections*



* Adjusted for new legislation, current definition of Revenue Act

Source: DOR and ERFC; monthly data through January 2010 Activity

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Revenue growth relative to income is starting to turn around

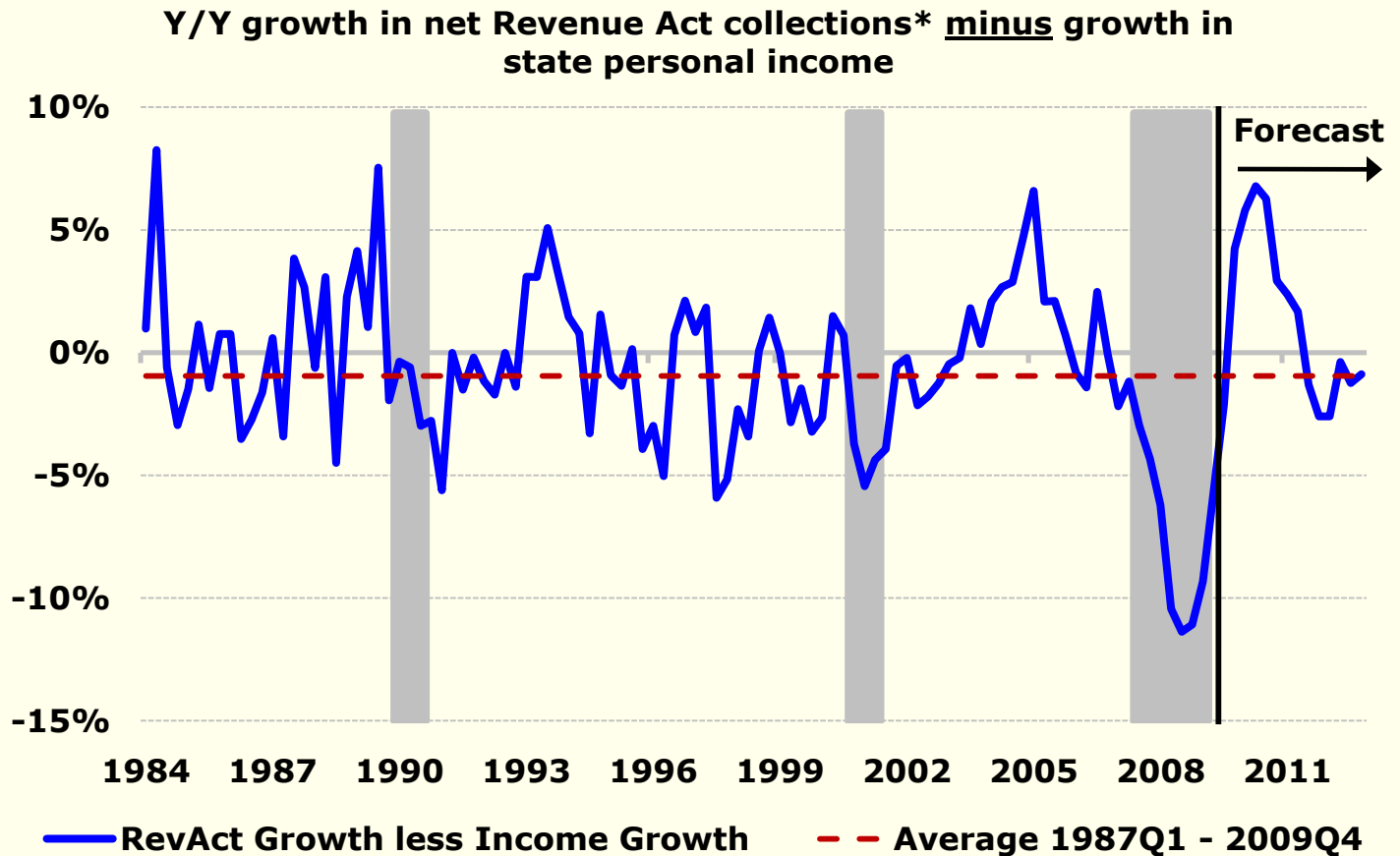
The difference between the growth rate of Revenue Act collections and state personal income began to shrink in the second quarter of 2009.

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* Adjusted for new legislation, current definition of Revenue Act

Source: DOR and ERFC; data through 2009Q4 estimated

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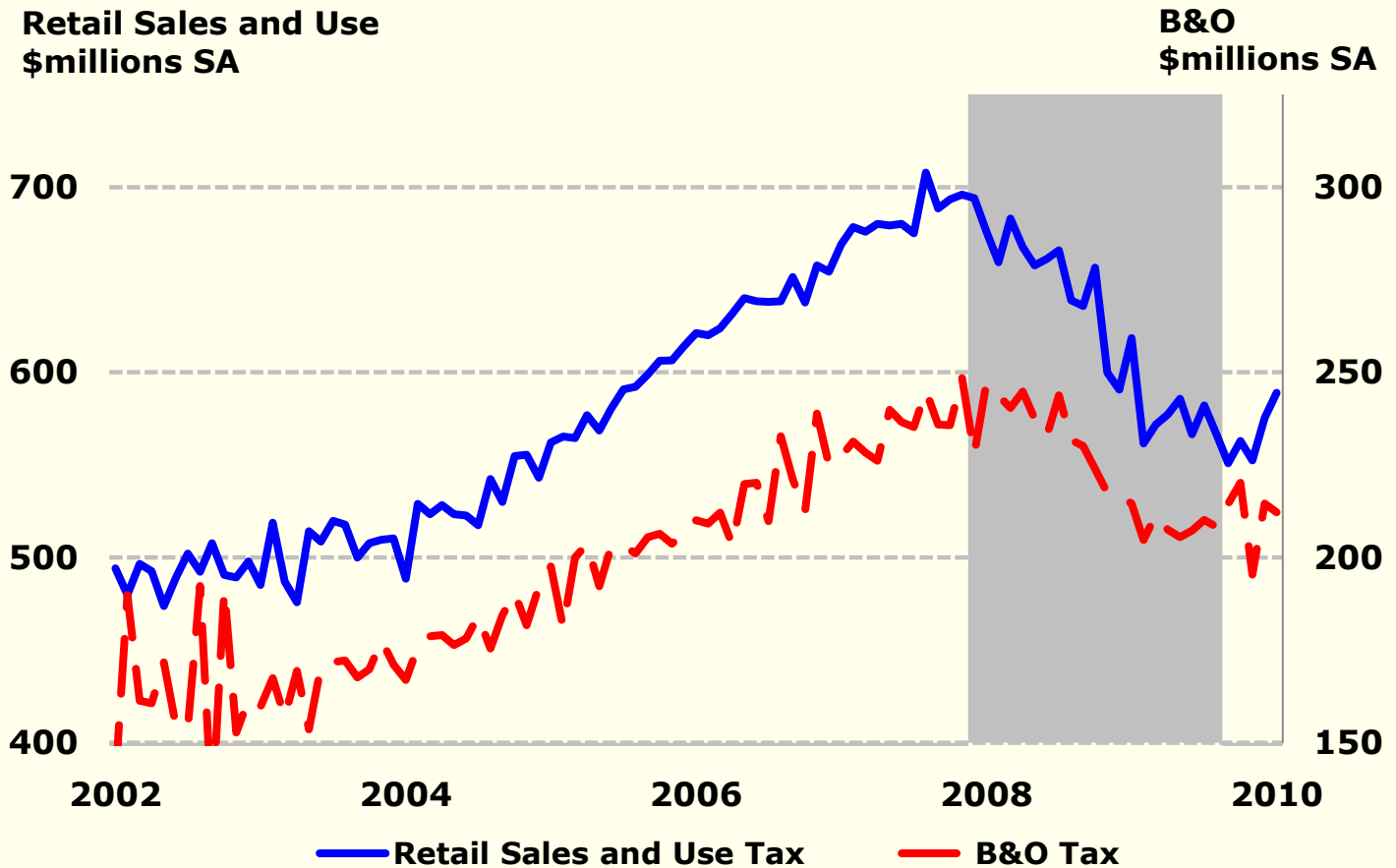


Most of revenue recovery is due to Retail Sales Tax

Though B&O revenues began to turn around in early 2009, they have not recovered rapidly

Retail sales and use activity bottomed out in September 2009

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Source: ERFC; Data through January 2010 preliminary allocation

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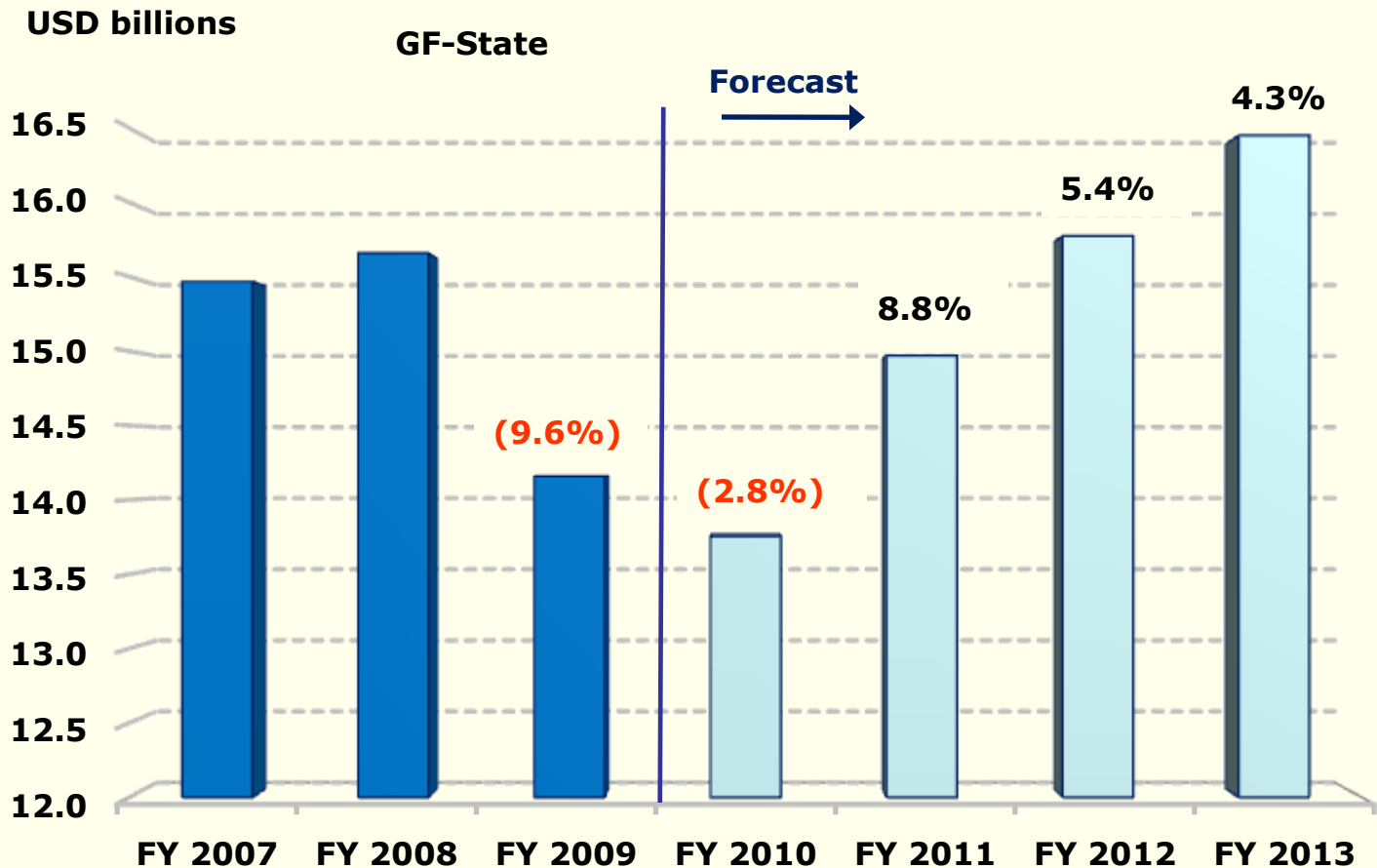


General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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Source: ERFC forecast, February 2010

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Conclusion

Pluses

- Recovery in progress
- Employment likely to improve soon
- Car sales have stabilized
- Large banks able to extend credit

Minuses

- Problems at community banks
- Weak consumer confidence
- Slow recovery in construction



Questions

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